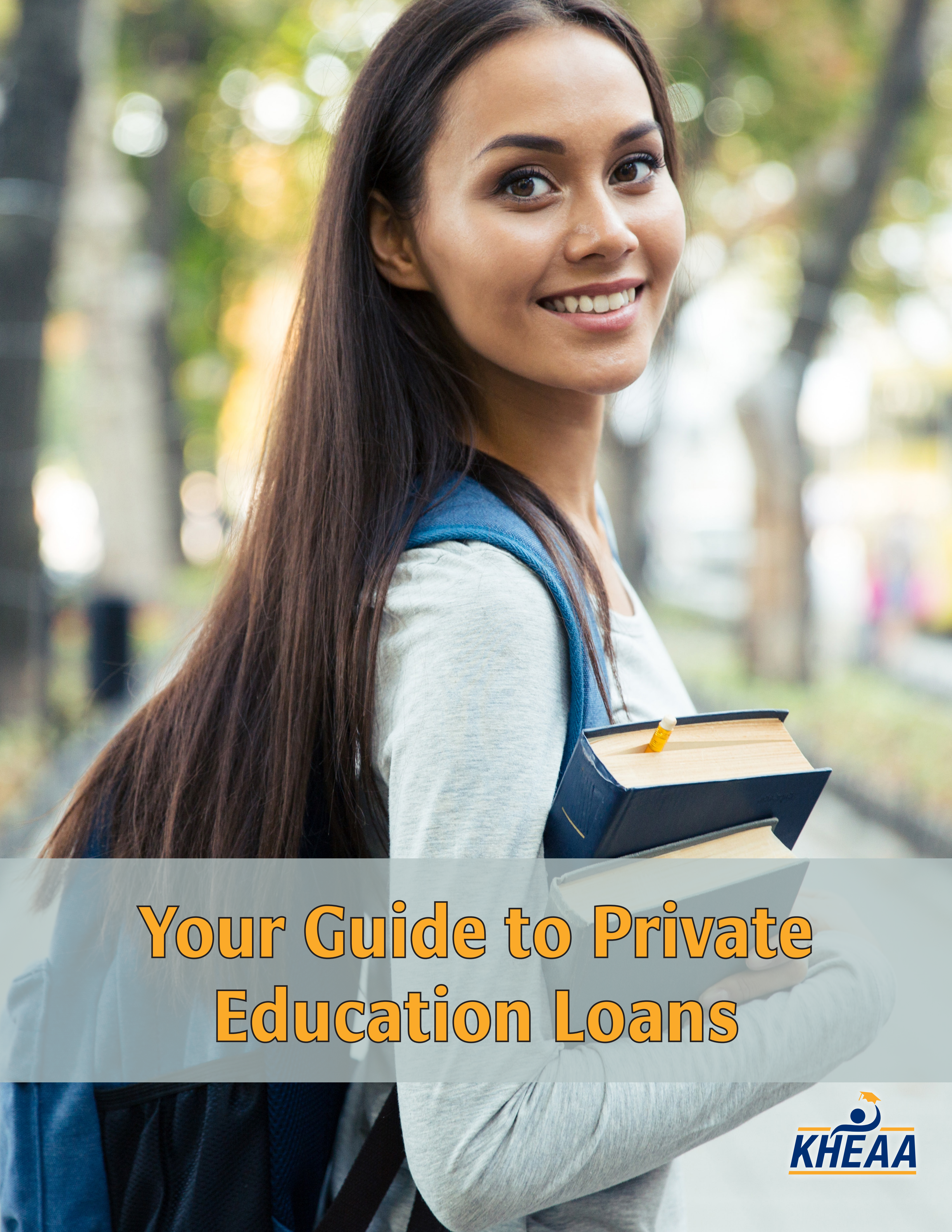

Your Guide to Private Education Loans

KHEAA

Introduction

Welcome to the world of college financial aid. There are multiple options that are available to help you pay for college — grants, scholarships, federal loans, work-study, family assistance and private student loans.

Private student loans, also called alternative student loans, are loans that come from a lender other than the U.S. Department of Education. They aren't guaranteed or subsidized by the federal government, and most don't have the same repayment options that you get with federal loans.

Eligibility

Unlike Federal Direct Loans, private student loans are typically based on your income and your credit score. You have to be what is called the "age of majority" to apply for private student loans. Age of majority simply means that you're old enough to sign a contract for a loan. That age will differ depending on what state you live in; for most states, the age of majority is 18.

To get a Federal Direct Loan, all you have to do is fill out the FAFSA and go to a college that participates in the federal loan program. Your credit score doesn't matter.

Most private student loans, like federal student loans, have to be certified by the college you're attending. That means your college has to tell the lender that you need the private loan to help you pay for your education. The lender will check with your school's financial aid office to make sure you're enrolled and you're eligible to receive a private student loan. The financial aid office will also tell the lender how much you can borrow, so you don't exceed the cost of attendance set for your school.

You may not have to file the FAFSA to get a private student loan, but it's a good idea to do so. That way you'll get all the free financial aid, like grants and scholarships, as well as federal aid such as work-study and Direct Loans, as you can. In most cases, Direct Loans will have lower interest rates and more repayment options than private loans do.

Cosigners

Nearly all students must have a cosigner to get a private student loan. A cosigner is someone — a parent, grandparent or other adult — who agrees to repay the loan if you don't. Having a cosigner means you'll more likely be able to get a private loan. It also means you'll probably have a lower interest rate and, maybe, lower fees.

The loan will appear on the cosigner's credit report and will be treated as if it were the cosigner's own loan. Missing a payment will damage the credit of both the borrower and cosigner. Lenders will attempt to get repayment from the cosigner after the first late payment.

Some lenders will release your cosigner if you make all your monthly payments on time for a certain length of time, such as after 24 to 36 months, have a good credit score and make enough money to repay the loan. Keep that in mind when you're considering a private student loan.

TIP

According to a study by Measure One (a company specializing in compiling and analyzing student loan data), roughly 94% of all undergraduate students who borrow a private loan do so with the help of a cosigner.

Interest rates and fees

The interest rates on Direct Loans change each year based on a formula tied to the interest rates on U.S. Treasury 10-year notes. The interest rate is fixed for each year's loan, meaning it stays the same while you're repaying that loan. Remember: If you take out Direct Loans each year, you'll pay different interest rates on your loans.

For private student loans, the interest rate is set by the lender and is based on your credit score, the credit score of your cosigner if you have one, which repayment plan you choose and other factors. You might get a lower interest rate if you pay on the loan while you're in school instead of waiting until you graduate. That also keeps your interest from being added to your loan balance (called capitalization).

Some lenders offer fixed rates, while others offer variable interest rates. With a variable rate, the interest you pay on a loan changes as interest rates as a whole go up or down. Fixed rates are usually a better choice than variable rates because they stay the same throughout the life of the loan.

Remember that the interest rate you'll pay will be based on creditworthiness. Many students may not have the credit history required to obtain the best interest rates on a private student loan; however, applying with a credit-worthy cosigner could increased the chances of getting a better rate.

Direct Loans and many private student loans also charge fees that are deducted from your loan. That means you won't get the full amount you borrow. Let's say your lender (either the federal government or a bank) charges a 4 percent fee and you borrow $10,000. That means that you'll only receive $9,600. **The other $400 is deducted for the fee — and you still have to pay interest on the whole $10,000.**

When you're looking at a private loan, see what kind of fees each lender charges.

TIP

The smaller the interest rate AND fee, the greater the savings — which means the less money you have to repay!

Other differences between federal and private student loans

Federal and private loans differ in ways other than the credit requirements and interest rates. Federal loans offer various deferment, forbearance and discharge options.

Deferments let you delay paying principal and/or interest for a while. With federal loans you can get deferments if you're unemployed, in graduate school or serving in the military, as well as other times. The federal government will pay the interest on subsidized Direct Loans while you're in deferment. Deferments are mandatory: whoever is servicing your federal loans must give you a deferment if you qualify.

Forbearances let you stop making payments or make lower payments for a while. Forbearances aren't mandatory, so your federal loan servicer doesn't have to let you have one. In addition, you'll have to pay the interest on your loans while you're in forbearance. If you don't, the interest will be added to your loan balance.

Discharges mean you don't have to pay back your federal student loans at all. Loans are discharged under certain circumstances such as death, total and permanent disability, identity theft and sometimes school closings. Check with your loan servicer if any of these events have occurred.

Many private student loans **don't** provide deferments, forbearances or discharges. If you're considering a private loan, make sure you see what is offered before selecting your lender.

Both federal and private student loans may be eligible for the **federal student loan interest tax deduction.** However, Congress can change that rule at any time.

Private student loans generally offer higher annual and cumulative loan limits than federal student loans.

Unlike federal student loans, you may be able to use a private student loan to pay off unpaid balances from a previous semester or academic year. If you have a prior balance, see what the lenders you're considering offer.

Choosing a private student loan

Before taking out a private student loan, see if you qualify for free student aid: grants, scholarships or work-study.

Then, apply for Federal Direct Loans (there is a maximum amount you can borrow per year). Remember, to qualify for a Direct Loan, you must be enrolled at least half time and be working towards a degree or certificate.

If you need a private loan to pay your college costs, don't make a hasty choice. It's a big decision, and you want to make sure you get the best loan you can.

At the very least, you'll need to research:

- Interest rates
- Fees
- Repayment options
- Cosigner and cosigner release
- Deferments, forbearances and discharges

You should also see if the lender gives an interest rate reduction for making payments automatically from your bank account. **Autopay** can save you hundreds of dollars when it comes time to repay your loans.

Students and parents tend to choose better known lenders, even though regional and specialty lenders may offer lower interest rates. Name recognition isn't always the best choice, so keep an open mind. You may also be able to find a nonprofit lender that offers much better rates than for-profit lenders do.

TIP

Student loans must be repaid with interest. You'll pay back more than you borrowed. How much more depends on interest rates, fees and how long it takes to pay the loan back in full.

When you've made your choice

You can apply to several lenders to get personalized pricing, and you should apply with a cosigner to see if you can get a better rate. Generally, applying to several lenders won't affect your credit score or that of your cosigner. Credit reporting agencies now recognize when a prospective borrower is shopping around, not trying to get multiple loans. Just make sure you apply within a 30-day period.

After you've found the loan you think works best and you've been approved for the loan, you (and your cosigner if you have one) will have to sign a promissory note. A **promissory note** is just what it sounds like: a legal agreement in which you promise to repay the loan. The promissory note will show all the terms and conditions of the loan, such as interest rates, fees and repayment plan. It will also let you know what will happen if you don't repay the loan like you've promised you would.

You may have to take **entrance counseling**, which goes over the terms of the loan so you know exactly what you're required to do. Remember: you'll have to repay the loan, even if you drop out or aren't satisfied with the education you received.

As a general rule, the money you've borrowed will be sent directly to your school. The school will give you the money or, more likely, credit it to your student account. The school may ask the lender to send half each semester or set up some other schedule.

Repaying your loans

Student loan repayment will begin as soon as the student leaves school or drops below part-time status. Different lenders will have different time limits for their grace periods (the time in which they allow the student to not have to make payments after leaving school — usually around six months).

If you can, pay at least the interest on your loans while you're in school so it isn't capitalized. Most lenders will require you to start repaying your loans when you graduate, although some may give you a grace period of six to nine months so you can get established in a job.

You might also have to take **exit counseling** before you leave school. That covers repayment options and collects your contact information, such as current and anticipated mailing addresses and the name of your employer. You're responsible for keeping the lender informed of any contact changes throughout the life of your loan.

Your student loan payments shouldn't be more than **10 percent of your salary** and you should plan to repay your loans in **10 years or less.**

You may want to **consolidate your student loans** so you only have one payment each month. If you do, check out the Federal Consolidation Loan or a refinance loan from a private lender. The federal loan will have an interest rate based on the interest rates of the loans you're consolidating — and you can only consolidate federal loans.

The interest rate on a private refinance loan consolidation is based on your current credit profile, so it might be a better choice than federal consolidation. You may also be able to consolidate your federal and private loans into one loan.

TIP

Once you're in repayment, making on-time monthly payments is a great way to build your credit score. Missing payments is also an easy way to destroy your credit. If you ever have a problem making a payment, contact your loan servicer for help.

The smart choice

The Advantage Education Loan could save you hundreds or thousands of dollars in interest and fees because you:

- Have a FIXED interest rate
- Pay NO fees

Plus you can borrow up to 100% of school expenses.

If you need additional funds for college, make the smart choice.

Apply today:

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